Ascot

Ascot Energy Resources Ltd.

1998 ANNUAL REPORT

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Ascot Energy Resources Ltd. will be held at the Altius Centre conference room located at the Plus 15 level of its Corporate Office location of 500 - 4th Avenue SW, Calgary, Alberta on June 1, 1999 at 10:00 a.m.

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ABBREVIATIONS

A.E.U.B.	Alberta Energy and Utilities Board
A.P.O.	after payout
ARTC	Alberta Royalty Tax Credits
bbl/d	barrels per day
bbl(s)	barrel(s)
bcf	billion cubic feet
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
bopd	barrels of oil per day
B.P.O.	before payout
D.S.T.	drill stem test
G&A	general & administrative
GORR	gross overriding royalty
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mmcf	million cubic feet
mmcf/d	million cubic feet per day
mstb	thousand stock tank barrels
NGL(s)	natural gas liquid(s)
NPV	net present value
W.I.	working interest
WTI	West Texas Intermediate

Highlights

	1998	1997	% CHANGE
FINANCIALS *($ except as indicated)*			
Revenue	**1,161,711**	563,064	+106
Cash Flow from Operations	**477,589**	237,845	+101
Per Share - Basic (¢)	**2.2**	1.4	+57
Net Earnings	**20,583**	71,111	-71
Per Share - Basic (¢)	**0.10**	0.44	-77
Total Assets	**4,461,429**	3,505,759	+27
Shareholders' Equity	**2,421,017**	2,210,380	+10
Long Term Debt	**1,275,000**	-	-
Capital Expenditures	**3,056,956**	1,619,582	+88
Shares Outstanding - Weighted Average	**21,435,053**	16,920,440	+26
OPERATING			
Average Annual Production			
Oil & NGLs (bbls/d)	**121**	57	+112
Gas (mcf/d)	**750**	350	+114
Total (boe/d)	**196**	92	+113
December Production Volumes			
Oil & NGLs (bbls/d)	**227**	86	+164
Gas (mcf/d)	**1,500**	754	+99
Total (boe/d)	**377**	161	+134
Reserves (Proved plus Probables)			
Oil & NGLs (mbbls)	**824.6**	735.8	+12
Sales Gas (mmcf)	**5,510.4**	2,846.2	+94
Present Value, discounted @ 15% ($000)	**9,095**	7,034	+29
Wells Drilled			
Gross	**4**	3	+33
Net	**1.7**	1.1	+54
Success Rate	**75%**	67%	+12

Letter to the SHAREHOLDERS

Higher production, revenues and cash flow, together with a significant corporate acquisition, turned 1998 into Ascot's most significant year to date. These achievements resulted from a corporate strategy initiated at the beginning of the second half of 1998, in which Ascot deferred all oil drilling projects and focused on corporate acquisitions that would substantially expand its asset base. Significantly, we achieved these results during one of the toughest years on record for the oil and gas industry. 1998 was particularly hard on the junior sector of the industry. Oil prices over the past 18 months were at their lowest levels, in real terms, in over 25 years, and the equity market was practically non-existent, even for flow-through share issues, the most common form of financing capital expenditures for junior companies. Some of Ascot's key accomplishments in 1998 included:

- First quarter 1998 drilling success that included two oil wells at Watelet and one gas well at Mikwan;
- Acquisition of an incremental 10 percent working interest in the Ascot-operated Watelet field on July 1, 1998 which added over 78 mboe of proven reserves and 124 mboe of established reserves. This acquisition, which was fully financed from existing credit facilities, adds long term, high quality oil and gas reserves with significant upside in both pricing and reserve additions;
- On November 1, 1998 Ascot acquired all of the issued shares of Pensionfund Energy Resources Limited (PERL), a private company, for 4,000,000 common shares of Ascot. This acquisition added approximately 198 mboe of proven reserves, 56 percent of which is gas, and 273 mboe of established reserves, 64 percent of which is gas. It also added daily production of about 100 bbls of oil and 750 mcf of gas, and a resulting annualized cash flow of about $420,000.

The corporate acquisition was the most significant event of the year and was particularly attractive because PERL was debt free and did not add any general and administrative costs to Ascot. In addition, PERL has over $2.3 million in tax pools and holds varying interests in over 87,000 acres of land, principally in Alberta, with an extensive seismic data base. The properties have significant upside in low risk gas and oil opportunities which we have identified and are currently pursuing.

Proforma highlights from 1998 include:

- Revenues, net of royalties, more than doubled from 1997, to over $1.1 million;
- Cash flow was up 101 percent to $477,589;
- Earnings, while still positive for the year at $20,583, were down 71 percent from 1997 due to significantly higher depletion and depreciation charges;
- Production for the year averaged 196 boe per day, composed of 121 bbls per day of oil and natural gas liquids and 750 mcf per day of gas, up 113 percent from the previous year;
- Exit production rate was 377 boe per day, comprised of 227 bbls per day of oil and NGLs and 1.5 mmcf per day of gas;
- Proven reserves at year-end 1998 rose 65 percent to 600 mboe, including 360,000 bbls of oil and NGLs and approximately 2.4 bcf of sales gas; and
- Proven plus half probable established reserves at year-end 1998 were 42 percent higher than 1997 at 987 mboe, including 592,000 barrels of oil and NGLs and 3.95 bcf of sales gas.

These achievements are a direct result of a corporate strategy that was initiated in July 1998 in order to cope with the continued effects of low oil prices. Key elements of this strategy included:

- Defer the drilling of all oil prospects, including development drilling in Ascot's core area of Watelet, until oil prices recover and are sustained at no less than US$13.50 WTI;
- Focusing on property and corporate acquisitions which could be financed through a combination of shares and cash;
- Identifying suitable merger candidates to enhance shareholder value by growing and strengthening the balance sheet.

GROWTH FACTORS

Ascot recognizes that only junior companies with prudent fiscal policies will survive the current weak oil price environment. Consequently, we remain convinced that in the near term, successful steady growth will result from the strategies that we put in place in the second half of 1998.

To that end, our growth strategy for 1999 includes the following:

- Continue to seek corporate acquisitions in exchange for Ascot shares;
- Pursue property acquisitions which may be financed through the combination of shares and/or debt, maintaining a debt to cash flow ratio of around 2.5;
- Seek merger candidates which will create value for our shareholders;
- Continue to accumulate land in our portfolio of prospects. Ascot is rich in both oil and gas prospects and has been accumulating land at reasonable prices in our key areas over the last three quarters; and
- Drill only lower risk gas prospects and resume drilling our oil prospects when oil prices recover.

INDUSTRY OUTLOOK

Despite this year's mild winter across North America, gas prices have held fairly steady and in fact have improved significantly for longer term contracts. This suggests a bright outlook for Canadian gas producers who now enjoy better access to markets in the Northeast and Midwest U.S. due to the various pipeline projects currently in place. Additionally, shrinking exploration and development budgets across North America and the lowest rig count in the U.S. in the last 50 years have significantly curtailed drilling for gas south of the border. This suggests increased demand for Canadian gas over the longer term.

On the oil side, the latest production cuts ratified by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC exporters, calling for the removal of 2.1 million barrels per day from the market, should quickly erode the global overhang in oil inventories. We are convinced that oil prices are at the lowest part of the cycle, and based on reasonable quota compliance by OPEC and non-OPEC countries, oil prices should show significant improvement by the third quarter of 1999. This bodes extremely well for Ascot, since we will be able to exploit our Watelet field and resume drilling our inventory of oil prospects.

1999 FORECASTS

During the balance of 1999, Ascot plans to exploit the low-risk opportunities that have been identified in the PERL acquisition. We are also pursuing a rationalization program that includes divesting some properties and increasing working interests in others. When oil prices recover, we will resume development drilling at Watelet.

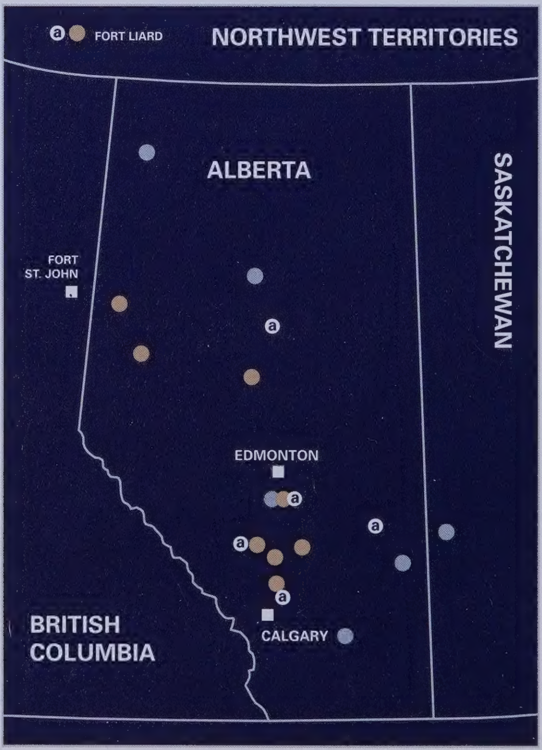
Based on reasonable commodity prices, we have set an exit target rate of 700 boe per day, with a resulting annualized cash flow more than double that of 1998. We are confident of achieving these goals with the current program in place, which includes capital expenditures of about $1.2 million, to be financed from discretionary cash flow and existing credit facilities. Given the current state of the market, we do not at this time anticipate pursuing any equity financing. However, if conditions improve and more funding is required to capitalize on opportunities, we will re-examine this option.

Our success at Ascot is dependent on many factors, most important of which is the dedication of our staff and the support of our shareholders. I therefore thank them both for their patience and loyalty, and our Board of Directors for their continued support and guidance.

A Khady

A.M. (Bezo) Khadr
President and C.O.O.
March 24, 1999

Key areas of ACTIVITY



OIL PROPERTIES

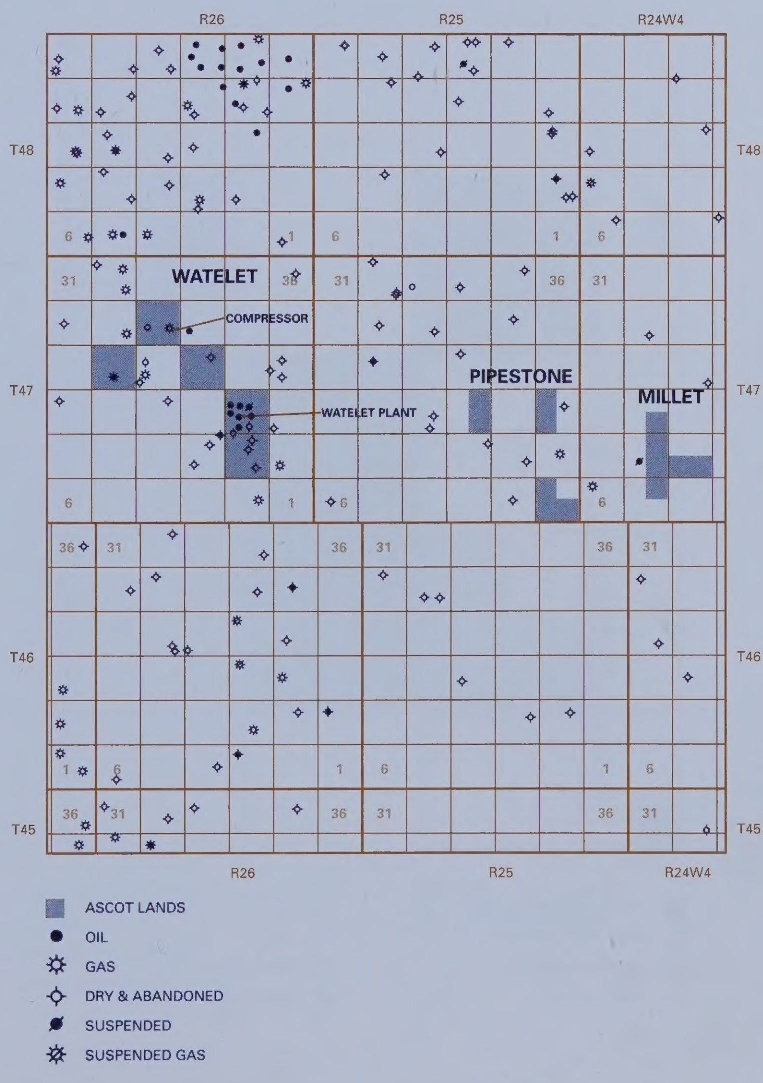
GAS PROPERTIES

ⓐ ACTIVE AREAS

WETASKIWIN

The Wetaskiwin area of Central Alberta continues to be Ascot's main core area in both exploration and production. The primary horizon in this area is the Lower Cretaceous Ellerslie sandstone, which produces oil and gas at depths of 4,500 to 4,900 feet, with typical recoverable well reserves in the range of 100 mbbls to 250 mbbls per 40 acres. Ascot owns and operates varying interests in 8.5 sections of land, as well as facilities in the area comprising a sweetening refrigeration plant at 7-14-47-26W4 and a dehydration compression facility at 7-28-47-26W4.

Wetaskiwin will continue to be an area of intense activity for Ascot over the next few years, particularly if the recent recovery of oil prices is sustained. To date, we have acquired a significant position in the following three prospects within the Wetaskiwin area.

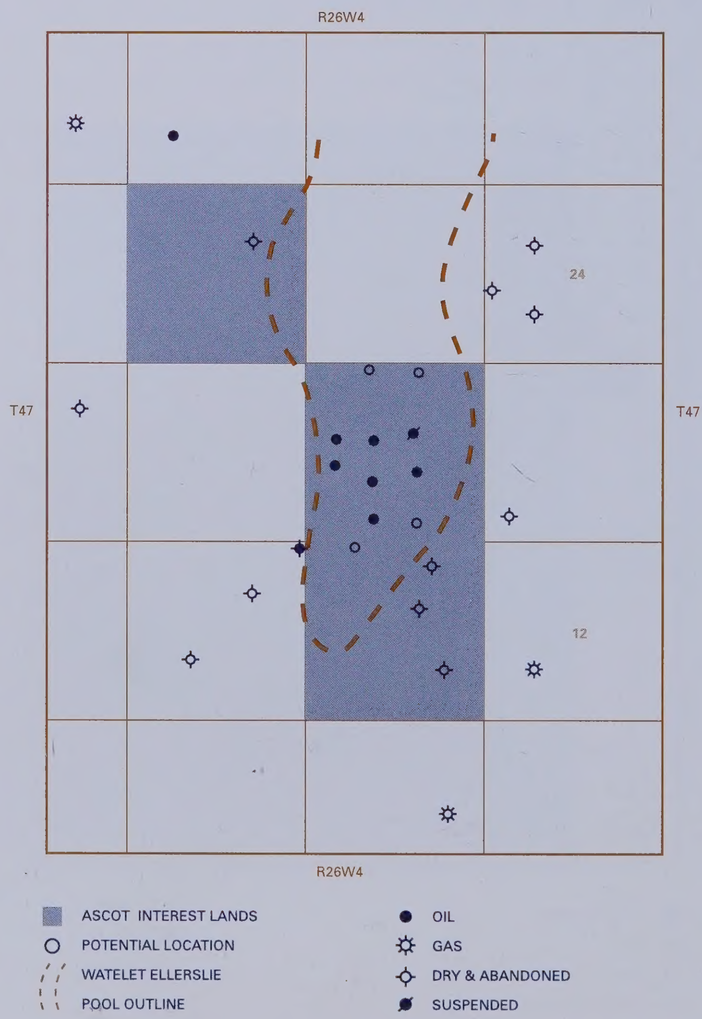


Watelet

In the first quarter of 1998, Ascot continued to downspace and develop the Watelet Ellerslie oil pool by drilling two successful locations at 5-14 and 12-14-47-26W4. This totals six producing oil and gas wells in the pool. In the third quarter the Company increased its working interest in the pool and the plant to 40 percent by purchasing an additional 10 percent from a working-interest partner.

As a result of the continued weakness in oil prices in the third and fourth quarters, the Company deferred the drilling of additional delineation wells and instead focused on improving efficiencies of operation and conducted a turnaround at the 7-14 plant and an overhaul at the 7-28 compressor. Two workovers, at 5-14 and 11-14, were also done in the fourth quarter to maintain productivity in the pool.

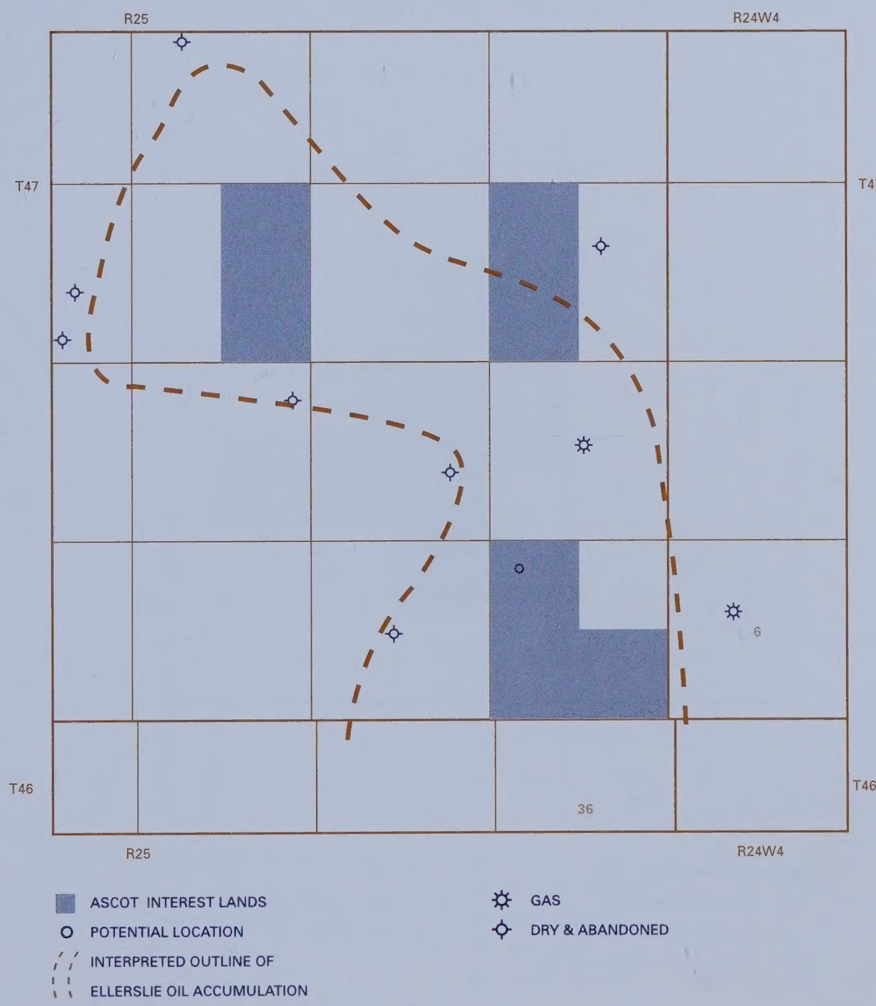
Ascot's current net production from the pool is approximately 145 boe per day, which we anticipate to increase substantially by drilling additional delineation locations once oil prices stabilize at no less than US$13.50 WTI.



Pipestone

This prospect is located approximately eight miles east of the Watelet pool and was defined by Ascot in mid-1998 by keying off a suspended gas well in the area. This well was located structurally high and tested 2.5 mmcf per day of gas and a modest amount of oil from a perforated 20-foot net-pay interval of which 6.5 feet are interpreted as oil pay in the Ellerslie formation. In late 1998, the Company started to accumulate expiring freehold land on the prospect and has currently acquired 1,120 acres at 100 percent W.I. within the interpreted oil leg of this potential Ellerslie pool.

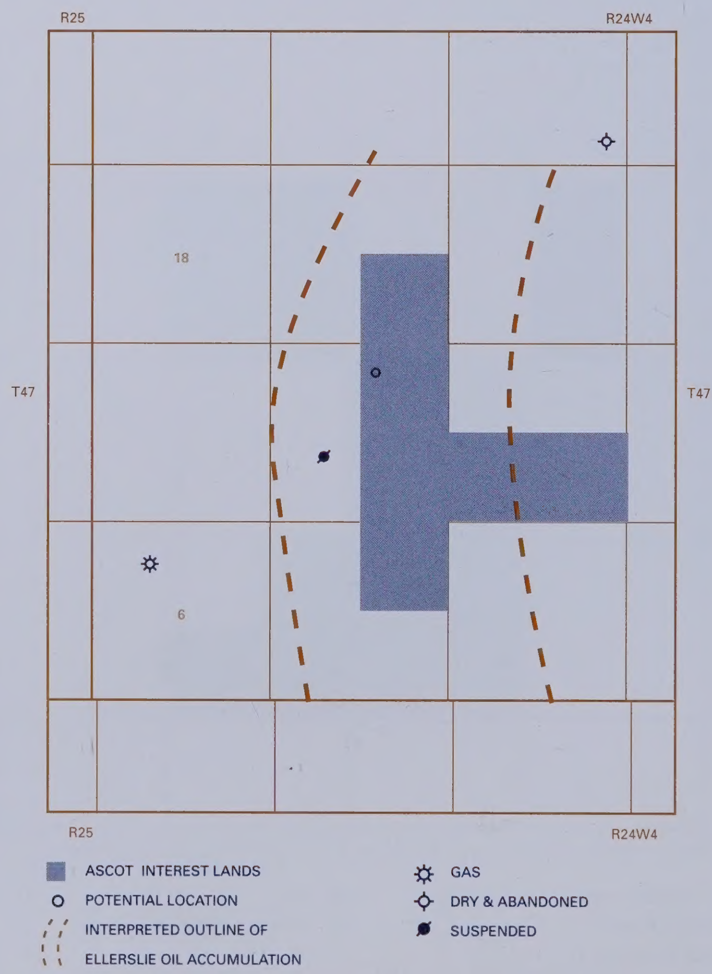
Plans for 1999 are to continue to accumulate the remaining competitor acreage and tie up the entire prospect, either through farmin or pooling, with the view of drilling a location on our land when oil prices recover.



Millet

Ascot defined this prospect in mid-1998, approximately two miles east of Pipestone. The key to the prospect is a well which produced oil and increasing water from a perforated two foot oil zone underlain by six feet of water in the Ellerslie sandstone and was subsequently suspended. This is analogous to a well situated on the west flank of our Watelet pool.

The Company has been aggressively acquiring land on the prospect and has accumulated to date 1,120 acres at 100 percent W.I., the majority of which lies structurally higher than the key well. The Company plans to continue accumulating land on this prospect and, when oil prices recover, drill a location that would intersect the Ellerslie sand at a structurally higher position than the lead well.



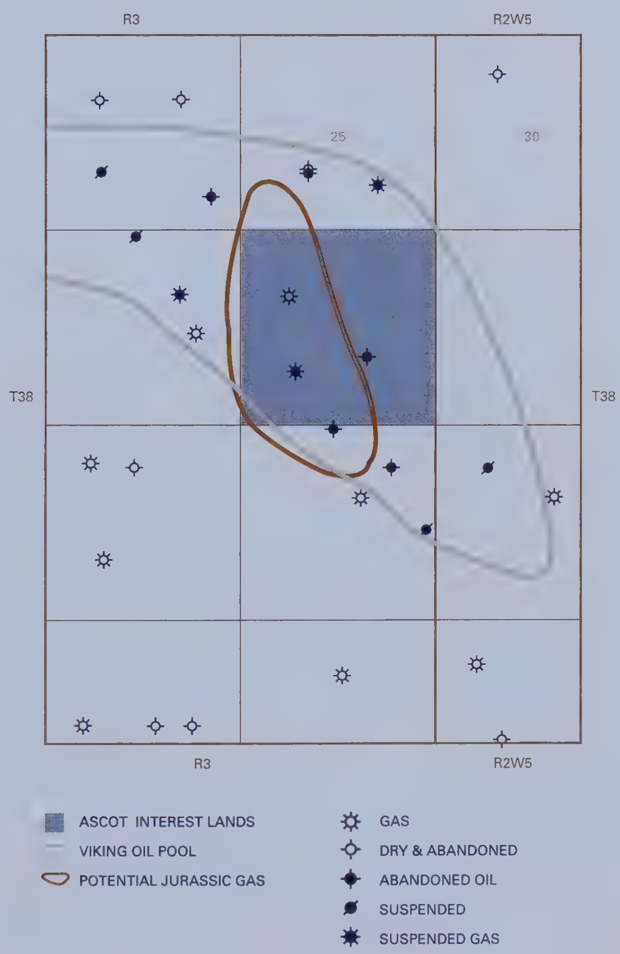
SYLVAN LAKE

Ascot owns approximately 35 percent W.I. and operates this 640 acre block. The wells are tied into the Ocelot Sylvan Lake gathering system and plant. The 6-24-38-3W5 well, which is currently tied in and is a suspended gas well in the Glauconitic and Basal Quartz sandstone, DST'd 2.1 mmcf/d of gas from an underlying Jurassic sandstone that was never produced in this well nor in any of the surrounding wells. This well is estimated to recover sales gas reserves of 1.1 bcf and 25,000 bbls of NGLs based on an independent engineering evaluation.

Plans for the second quarter are to re-enter the 6-24 well and perforate the Jurassic sand. The expected production rate is 1.5 mmcf per day gross and 525 mcf per day net to Ascot.

Also, the 12-24-38-3W5 well, which is currently producing gas from the Ellerslie formation, has an untested overlying Viking sandstone oil zone. Upon depletion of the Ellerslie gas, the Company is planning to perforate the Viking zone, which could contain 50 mbbls of recoverable oil and produce at rates of 50 bbls per day gross and 17.5 bbls per day net to Ascot.

The Company is currently attempting to acquire an additional eight percent W.I. in this prospect.

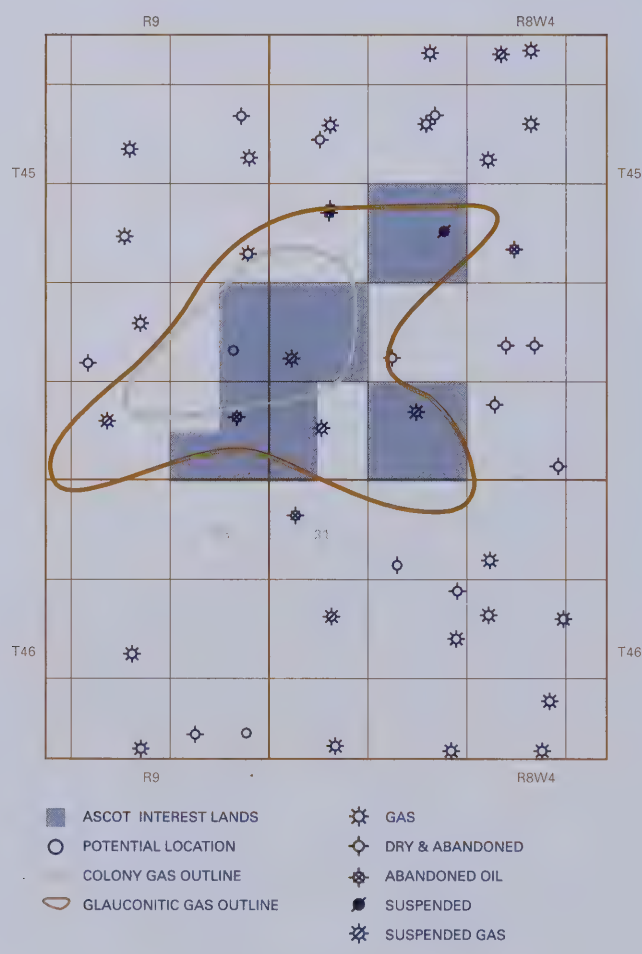


VIKING-KINSELLA

Ascot owns and operates varying interests of 37.5 to 100 percent in 3,040 acres of land in this prolific, shallow gas area. Immediately following spring break-up the Company plans to reactivate the gathering system in the area and re-route the tie-in to a lower pressured line, utilizing another operator's compression and dehydration facilities. This will result in significantly reduced gathering and processing fees.

The Company will then workover the 7-5-45-8W4 well by abandoning the Glauconitic zone, resume the Colony production and perforate the Viking zone for dual gas production. Also, at 10-17-45-8W4, the Colony will be abandoned and the overlying Viking will be perforated.

In the third quarter, the Company intends to drill a step-out well to capture approximately 1 bcf of Glauconitic and Colony reserves with uphole Viking potential. Ascot is expected to add approximately 700 mcf per day of net production from this area.

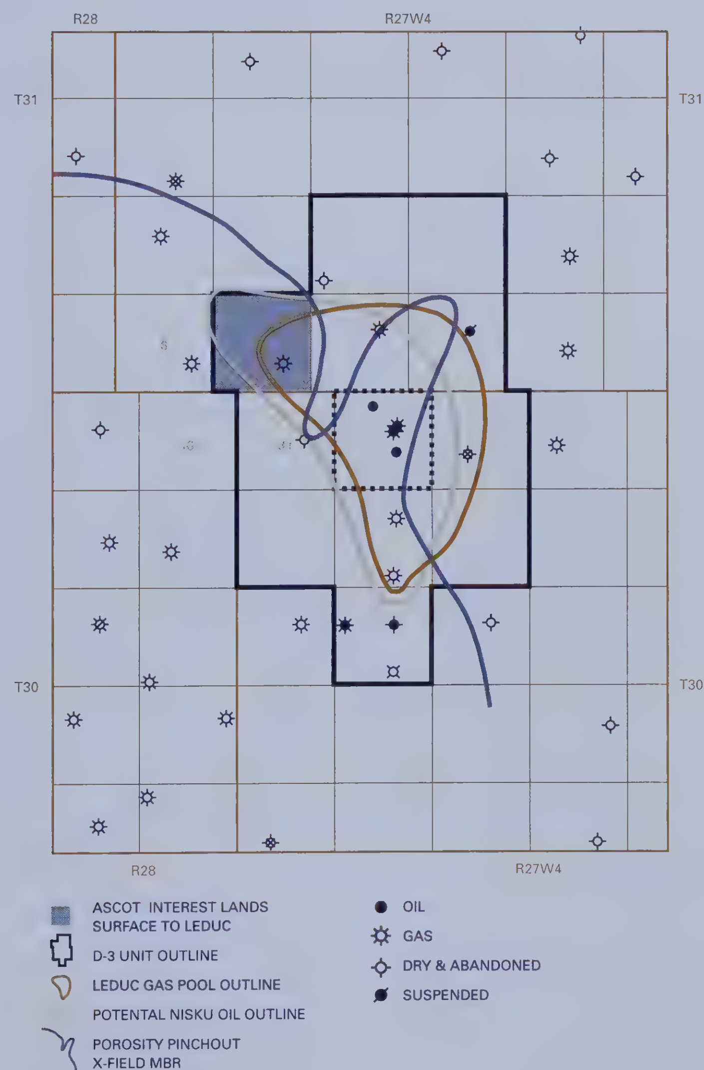


LONE PINE CREEK

Ascot owns a one percent working interest in the Lone Pine Creek Leduc Gas Unit; in addition, the Company operates and owns a 10 percent working interest in all rights to the top of the Leduc in Section 5-31-27W4. The D-1 Crossfield member tested gas in the 7-5-31-27W4 well but was never produced. The D-2 Nisku tested oil-cut mud in the same well, but is believed to have been damaged. Log analysis on the Nisku zone indicates reservoir characteristics in the 7-5 well that are as good as those present at 10-33-30-27W4, which produced approximately 500 mbbls of 40° API oil.

Estimated Crossfield and Nisku reserves at the 7-5 well are 1.5 bcf and 250 mbbls of oil respectively, with expected gross production rates of 1.2 mmcf per day of gas and 100 bbls per day of oil.

The Company is currently attempting to increase its interest to 100 percent in those uphole zones and then twin the existing producer in the latter part of the year. The well will be engineered and designed for dual production from the oil and gas zones.



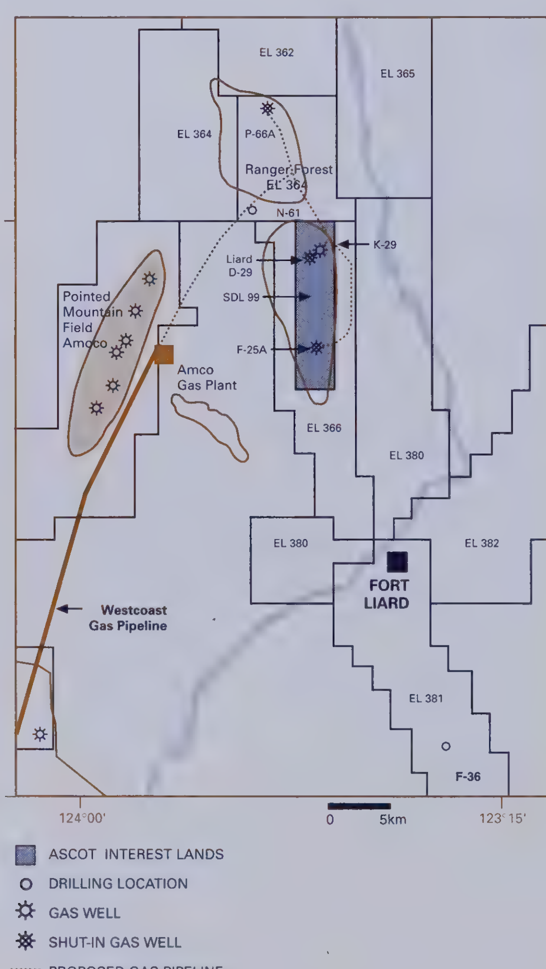
LIARD, NORTHWEST TERRITORIES

Ascot owns a 0.525 percent W.I. in approximately 11,000 acres within the Significant Discovery License (SDL) 99, in the southwestern Northwest Territories. SDL 99 is approximately 16 kilometres east of Amoco's giant Pointed Mountain gas field and contains the F-25A discovery, which is assigned 38 bcf of proved and probable gas reserves. This license, excluding the F-25A well, is farmed out to Chevron, where the K-29 earning well was drilled to 3,000 metres and initial testing was just completed.

The primary horizon is the thrusted Middle Devonian fractured Nahanni Carbonate sequence, which is the same producing zone as that at the Pointed Mountain gas field and the P-66 Ranger gas discovery situated approximately 15 kilometres northwest of K-29.

The Chevron K-29 well was drilled as an updip evaluation of the F-25A and D-29 discovery wells to intersect the Nahanni Carbonates near the leading edge of the main thrust fault at the optimum position for reservoir fracturing. The K-29 well which encountered the target horizon approximately 400 metres higher than that in the offsetting D-29 well, tested gas at a restricted rate of 35 mmcf/d. The actual production rate from this well is expected to be significantly higher.

Although the Company has a small (0.21 percent) carried working interest in this well, the magnitude of the expected reserves in this structure could have a significant impact on our Company, especially since the tie-in and ensuing production into the nearby Pointed Mountain facilities are expected to occur within the next year.



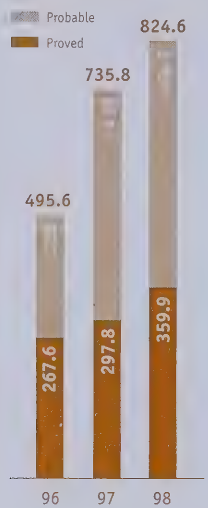
Management's DISCUSSION AND ANALYSIS

PRODUCTION AND FINANCIALS

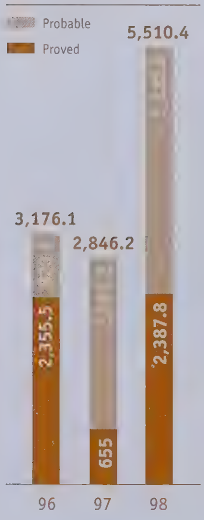
The table below summarizes our production and financial results for 1998 compared to 1997:

PRODUCTION			1998	1997	CHANGE
Oil & NGLs (bbls/d)			**121**	57	+112%
Gas (mcf/d)			**750**	350	+114%
Total (boe/d)			**196**	92	+113%
DECEMBER PRODUCTION					
Oil & NGLs (bbls/d)			**227**	86	+164%
Gas (mcf/d)			**1,500**	754	+99%
Total Exit Rates (boe/d)			**377**	161.4	+134%
Revenue, net of royalties		**$**	**1,161,711**	563,064	+106%
Cash Flow	Gross	**$**	**477,589**	237,845	+101%
	¢/share		**2.2**	1.4	+57%
Earnings (Loss)	Gross	**$**	**20,583**	71,111	-71%
	¢/share		**0.10**	0.44	-77%

OIL & NGLs RESERVES
(mstb)



SALES GAS RESERVES
(mmcf)



Average production for 1998 more than doubled from 1997 production, while the exit rate of 377 boe per day was 134 percent better than that at year-end 1997. This year's exit rate was only five percent below our target exit rate of 400 boe per day, which could have easily been exceeded had we not deferred our development drilling at Watelet until oil prices recover. The average price received for oil during the year was $16.37 per bbl, down 31 percent from the $23.88 received in 1997, while gas prices averaged $2.16 per mcf, down slightly from the $2.21 received in 1997.

In spite of the significant drop in oil prices during 1998, both net revenue and cash flow more than doubled for the year. Net income, while still positive, was down from 1997, due to disproportionately large depletion and depreciation charges resulting from the acquisition activities.

EXPENSES AND NETBACKS

The Company paid $108,593 in royalties, net of ARTCs, and operating costs of $478,091 during the year. General and administrative expenses for 1998 were $206,031, or $2.87 per boe, down considerably from 1997 charges of $4.23 per boe. In addition, the Company capitalized $175,968 in G&A and $43,785 in interest charges related to exploration and production activities during 1998. The following table summarizes our costs and netbacks per boe:

PER BOE	1998	1997	CHANGE
Price	$ **18.08**	$ 23.30	-22%
Royalties, net of ARTC	$ **1.51**	$ 4.17	-64%
Operating Costs	$ **6.67**	$ 5.45	+22%
Netbacks	$ **9.90**	$ 13.68	-27%

DEPLETION AND DEPRECIATION

The Company reported $457,006 in depletion and depreciation charges during 1998, a 174 percent increase from 1997. This is due to production gains and increased capital and acquisition expenditures incurred during 1998. The proved reserve depletion rate for 1998 is 10.38 percent, or $6.38 per boe.

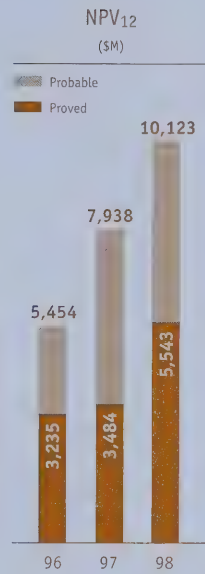
RESERVES & ASSET VALUE

Ascot's working interest reserves as of January 1, 1999, were evaluated by Martin & Brusset Associates and are summarized in the following table:

	OIL & NGLs (mstb)	SALES GAS (mmcf)
Proved Producing	349	1,828.6
Proved Non-producing	10.9	559.2
TOTAL PROVED	359.9	2,387.8
Probable	464.7	3,122.6
TOTAL PROVED PLUS PROBABLE	824.6	5,510.4

The discounted net present values of future cash flows from these reserves, including Alberta Royalty Tax Credits, are summarized below:

	NPV ($M)		
RESERVE CATEGORY	10%	12%	15%
Proved Producing	5,353	5,043	4,646
Proved Non-producing	529	500	460
TOTAL PROVED	5,882	5,543	5,106
Probables	5,060	4,580	3,989
TOTAL PROVED PLUS PROBABLES	10,942	10,123	9,095

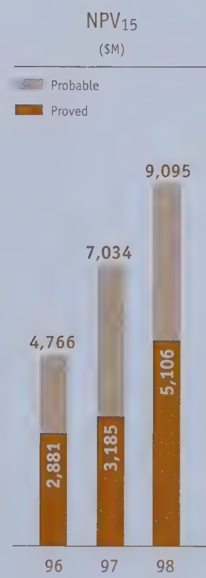


RECONCILIATION OF RESERVES

The following table summarizes the changes that occurred in the Company's reserves during 1998:

	OIL & NGLs (mstb)		SALES GAS (mmcf)	
	Proved	Probable	Proved	Probable
January 1, 1998	297.8	438	655	2,191.2
Acquisitions	153.3	104.3	1,234.3	1,378.3
Discoveries & Extensions	62.5	26.4	523.7	35.3
Production	(44.2)	–	(274)	–
Revisions	(109.5)	(157.4)	248.8	(482.2)
January 1, 1999	359.9	464.7	2,387.8	3,122.6

The reserve revisions are primarily due to a reallocation of oil and gas reserves in the Watelet field and a downward revision in reserve estimates in the Pembina and Rainbow Lake areas.



RESERVE REPLACEMENT

The reserve replacement ratios for 1998 are determined by dividing the annual production into the reserve additions, including revisions, for the year. These ratios are tabulated below, by product type and reserve category.

	OIL & NGLs	GAS	TOTAL
Proven Reserves	2.4	7.3	4.3
Proven plus 1/2 Probable Reserves	2.1	9.0	4.8
Proven plus Probable Reserves	1.8	10.7	5.2

Ascot added proportionately more gas than oil reserves during 1998, resulting in a more balanced reserve base.

RESERVE LIFE INDEX

The reserve life index, which is calculated by dividing the annual production volumes into the year-end reserve figures, is summarized in the following table.

(YEARS)	OIL & NGLs	GAS	TOTAL
Proven Reserves	8.1	8.7	8.4
Proven plus 1/2 Probable Reserves	13.4	14.4	13.8
Proven plus Probable Reserves	18.6	20.1	19.2

The Company has a long life reserve base that is equally weighted between oil and gas.

FINDING AND DEVELOPMENT COSTS

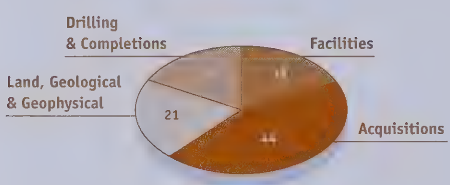
Our finding and development (F&D) costs per boe for 1998, 1997 and the two year average, by reserve category, are summarized below:

FINDING & DEVELOPMENT COSTS PER BOE		1998	1997	2 YEAR AVERAGE
Proved Reserves	$	**6.86**	7.78	7.10
Proved plus 1/2 Probable Reserves	$	**5.09**	4.40	4.88
Proved plus Probable Reserves	$	**4.05**	3.07	3.72

The two year average F&D cost is obtained by dividing the capital costs incurred during that two year period by the total reserve additions during that period, on a boe basis.

LIQUIDITY AND CAPITAL PROGRAM

In 1998, Ascot Energy had a capital expenditure program of $3,056,956, allocated as follows:



Drilling & Completions	$ 510,936
Land, Geological & Geophysical	641,918
Facilities	546,890
Acquisitions	1,350,000
Other	7,212
TOTAL	$ 3,056,956

This capital program was funded from our credit facilities, cash flow and proceeds of the flow-through shares issued in 1997. In addition, Ascot issued 4,000,000 common shares at 15¢ each as the purchase price for PERL, and in December 1998 Ascot raised $193,500 by way of private placement, by issuing 967,500 flow-through shares priced at 20¢ each. That brings our total number of outstanding shares to 25,735,886 at year-end 1998, compared to 20,768,386 shares outstanding at year-end 1997.

In addition, Ascot had a positive working capital of $233,420 at year-end 1998. Additional funds are available to the Company through Ascot's bank credit facilities. These funds, as well as our cash flow from operations, are sufficient to meet our capital requirements for the balance of 1999.

BUSINESS RISKS

The exploration, production, acquisition and marketability of oil and gas reserves involve numerous business risks beyond the Company's control. These include commodity prices, exchange rates, interest rates and government regulations. The Company continuously monitors and reacts to changes in these factors and adheres to all regulations governing its operations. Additionally, Ascot attempts to minimize the technical risks associated with our operations by employing a team of highly skilled and experienced professionals who conduct our daily activities utilizing leading edge technology.

Ascot is well positioned to continue its rapid growth in 1999, by adhering to its current business philosophy, which we are confident will create long term value to its shareholders.

YEAR 2000

For almost a year Ascot has been assessing the impact of the Year 2000 on its operations. The issue is one in which computer systems may misinterpret the date change from December 31, 1999 to January 1, 2000, where in some systems the yearly date is recognized by the last two digits only.

We have successfully tested our hardware and software and found them to be Y2K compliant, with minor exceptions. We do not anticipate any disruption in our field operations which we operate. We continue to communicate with our purchasers, suppliers, financial institutions and business associates regarding their levels of preparedness and the impact it has on our operations. The Company is developing contingency plans to deal with any third-party problem that may arise. Costs associated in this regard are expected to be minimal and will not have a material impact on our financial results.

Auditors' Report

To the Shareholders of
Ascot Energy Resources Ltd.:

We have audited the consolidated balance sheets of Ascot Energy Resources Ltd. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
April 1, 1999

Consolidated Statements of Operations and Deficit

YEARS ENDED DECEMBER 31,	1998	1997
REVENUE		
Petroleum and natural gas sales	1,220,482	702,931
Royalties, net of ARTC	(108,593)	(140,234)
Interest and other	49,822	367
	1,161,711	563,064
EXPENSES		
Production	478,091	183,062
Depletion and depreciation	457,006	166,734
General and administrative	206,031	142,157
	1,141,128	491,953
NET INCOME	20,583	71,111
DEFICIT, BEGINNING OF YEAR	(2,513,185)	(2,584,296)
DEFICIT, END OF YEAR	(2,492,602)	(2,513,185)
INCOME PER SHARE	0.001	0.004

Consolidated Balance Sheets

DECEMBER 31,	**1998**	1997
ASSETS		
CURRENT		
Cash	**285,453**	935,473
Accounts receivable and other assets	**581,430**	1,043,623
	866,883	1,979,096
Property and equipment (Note 4)	**3,594,546**	1,526,663
	4,461,429	3,505,759
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**633,463**	1,275,121
Bank loan (Note 5)	**1,275,000**	-
Provision for site restoration	**131,949**	20,258
	2,040,412	1,295,379
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**4,313,619**	4,723,565
Share subscriptions (Note 3)	**600,000**	-
Deficit	**(2,492,602)**	(2,513,185)
	2,421,017	2,210,380
	4,461,429	3,505,759

APPROVED BY THE BOARD

Director

D R Gieck

Director

Consolidated Statements of Changes in Financial Position

YEARS ENDED DECEMBER 31,	1998	1997
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	**20,583**	71,111
Item not affecting cash		
Depletion and depreciation	**457,006**	166,734
Funds from operations	**477,589**	237,845
Changes in non-cash operating working capital items	**(179,465)**	(458,432)
	298,124	(220,587)
FINANCING		
Increase in bank loan	**1,275,000**	-
Issue of common shares for cash, net of issue costs	**183,500**	1,360,100
Issue of shares on acquisition of subsidiary (Note 3)	**600,000**	-
	2,058,500	1,360,100
INVESTING		
Property and equipment	**(2,314,889)**	(1,619,582)
Acquisition of subsidiary (Note 3)	**(691,755)**	-
	(3,006,644)	(1,619,582)
NET CASH OUTFLOW	**(650,020)**	(480,069)
CASH POSITION, BEGINNING OF YEAR	**935,473**	1,415,542
CASH POSITION, END OF YEAR	**285,453**	935,473
FUNDS FROM OPERATIONS PER SHARE	**0.022**	0.014

Notes to the Consolidated Financial Statements

Years Ended December 31, 1998 and 1997

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Ascot Energy Resources Ltd. ("the Company") and its wholly-owned subsidiary, Pensionfund Energy Resources Limited ("PERL") which was acquired effective November 1, 1998 (Note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, geological and geophysical expenditures, well equipment, and certain other overhead expenditures related to exploration.

Capitalized costs, including tangible well equipment, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by management and reviewed by an independent reserve engineer.

Gains or losses on the sale or disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates and which would result in a material gain or loss.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, less administrative, financing, site restoration and abandonment, and income tax expenses, plus the costs of unproven properties. Any reduction in value as a result of the ceiling test is charged to operations as an element of depletion and depreciation expense.

Depletion and depreciation

Petroleum and natural gas properties and related equipment, excluding undeveloped properties, are depleted and depreciated using the unit-of-production method based on estimated proven reserves before deduction of royalties and after conversion to units of common measure based on a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Joint ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Office equipment and furniture

Leasehold improvements are recorded at cost and depreciated over the term of the lease.

Office equipment and furniture are recorded at cost and depreciated on the declining-balance basis at rates of 20 percent to 30% per year.

Flow-through shares

The Company has issued flow-through shares and special warrants for the purchases of flow-through shares. Under these financing agreements, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated renounced tax deductions when the related costs are incurred.

Future site restoration and abandonment costs

The Company has made a provision for future site restoration and abandonment costs, based on the unit-of-production method. The provision is included in depletion and depreciation in the statements of operations and deficit.

3. ACQUISITION

Effective November 1, 1998, the Company acquired all of the issued and outstanding shares of PERL, a private company involved in the exploration, development and production of petroleum and natural gas in Western Canada. The acquisition has been accounted for by the purchase method of accounting as follows:

	$
Consideration given:	
Issue of 4,000,000 common shares at $0.15 per share (disclosed as share subscriptions at December 31, 1998)	600,000
Acquisition costs	91,755
	691,755
Allocation of purchase price:	
Property and equipment	759,755
Provision for future site restoration	(68,000)
	691,755

The consolidated financial statements include the net assets acquired and results of operations of PERL from the effective date of November 1, 1998.

4. PROPERTY AND EQUIPMENT

	COST $	1998 ACCUMULATED DEPLETION AND DEPRECIATION $	NET BOOK VALUE $
Petroleum and natural gas assets	**6,540,239**	**3,020,677**	**3,519,562**
Office equipment and furniture	**100,209**	**45,831**	**54,378**
Leasehold improvements	**32,198**	**11,592**	**20,606**
	6,672,646	**3,078,100**	**3,594,546**

	COST $	1997 ACCUMULATED DEPLETION AND DEPRECIATION $	NET BOOK VALUE $
Petroleum and natural gas assets	4,066,253	2,627,556	1,438,697
Office equipment and furniture	92,997	30,789	62,208
Leasehold improvements	32,198	6,440	25,758
	4,191,448	2,664,785	1,526,663

The Company has capitalized, as part of petroleum and natural gas assets, general and administrative expenses relating to property acquisition, exploration and development activities of $175,968 for the year ended December 31, 1998 (1997 - $247,336). Petroleum and natural gas assets at December 31, 1998 also include $43,785 of interest expense capitalized relating to the Company's exploration and development activities (1997 - $7,843).

Undeveloped land costs of $277,215 (1997 - $163,539) have been excluded from the amount subject to depletion and depreciation.

Petroleum and natural gas assets are presented net of $1,931,880 (1997 - $1,338,434) of benefits relating to income tax deductions which have been renounced under flow-through share arrangements (Note 6).

5. CREDIT FACILITIES

The Company has available a revolving demand loan credit facility to a maximum of $1,900,000 and a non-revolving acquisition demand loan credit facility to a maximum of $1,000,000. The loans bear interest at the bank prime rate plus 1 percent and are secured by a debenture covering all assets of the Company.

6. SHARE CAPITAL

Authorized

Unlimited number of Class A common voting shares
Unlimited number of preferred shares, issuable in series

The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares.

	NUMBER OF SHARES	AMOUNT $
Issued		
Balance December 31, 1996	16,668,100	3,839,497
On exercise of stock options	300,000	30,000
Flow-through shares for cash	3,800,286	1,330,100
Tax benefit renounced to shareholders	-	(476,032)
Balance December 31, 1997	20,768,386	4,723,565
Flow-through shares for cash	967,500	193,500
Tax benefit renounced to shareholders	-	(593,446)
Share issue costs	-	(10,000)
Balance December 31, 1998	21,735,886	4,313,619

The basic (loss) income per share and funds from operations per share figures have been calculated using 21,435,053 (1997 - 16,920,440) weighted average number of shares.

Stock options

At December 31, 1998, there were 810,000 options outstanding to purchase common shares for consideration of $0.20 to $0.25 per share. The options are exercisable at various dates to 2001.

7. INCOME TAXES

Deferred income taxes related to net income for the year have been offset by deferred income tax recoveries from prior years.

Petroleum and natural gas assets with a cost of approximately $2,398,000 at December 31, 1998 (1997 - $1,676,000) have no cost base for income tax purposes.

8. COMMITMENTS

The Company has an obligation to make future minimum lease payments of $60,695 per year for the next five years relating to a lease of premises.

9. FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. The bank loan bears interest at floating market rates, and accordingly, the fair value approximates the carrying value.

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

BOARD OF DIRECTORS

Dennis Gieck*
Mr. Gieck is Chairman of the Board and C.E.O. of the Corporation. Mr. Gieck has more than 25 years experience in the oil and gas industry. During the first 14 years of his career, Mr. Gieck was employed by Amoco Canada and subsequent to this he was president of Strand Oil and Gas Ltd. During the last six years, Mr. Gieck played a key role in founding three private oil and gas companies which have demonstrated dramatic growth in production and asset value. Mr. Gieck is a graduate of the University of Alberta with a Bsc. in Engineering.

Bezo Khadr
Mr. Khadr is President & C.O.O. of the Corporation. Mr. Khadr graduated from the University of Calgary with a Ph.D. in Electrical Engineering. Mr. Khadr commenced his oil and gas career with Amoco Canada as a geophysicist where he remained for four years, progressing to the position of staff geophysicist. He subsequently joined Strand Oil and Gas Ltd. as chief geophysicist and held this position for six years. From March 1987 until his appointment as President of the corporation in July, 1998 Mr. Khadr has maintained a successful practice in geophysical consulting. Mr. Khadr was instrumental in the discovery of numerous oil and gas pools throughout western Canada.

Joseph W. Worobec
Mr. Worobec is a registered professional geologist (APEGGA) with a B.Sc. from the University of Alberta. Mr. Worobec's career in the petroleum industry began as an oil scout and a wellsite geologist with Hudson Bay Oil and Gas. Since that time he founded Strand Oil and Gas Ltd. and has held positions with companies ranging from private oil and gas firms to multinational corporations. Mr. Worobec has been a consulting geologist for the past ten years.

Marcel Tremblay
Mr. Tremblay is President, Chairman of the Board and Chief Executive Officer of Enerplus. Mr. Tremblay has 34 years of experience in the investment industry and the oil and gas industry. Prior to 1985, he was President of Royal Trust Energy Corporation ("RTEC") and was its senior officer since its inception in 1980. Prior to the formation of RTEC, Mr. Tremblay served as coordinator of all investment activities related to the energy sector within the Royal Trust Group. Prior to joining Royal Trust in November 1973, he was Partner, Director and Chief Financial officer of Maison Placements Canada Inc., a Canadian brokerage firm.

Amin Abdel-Kader*
Mr. Abdel-Kader graduated from Alexandria University with a Masters degree in Geophysics. He was engaged in scientific research when employed by Amoco Canada in 1966. Mr. Abdel-Kader has over thirty years experience ranging from exploration to management. When he retired from Amoco Canada in 1996 he held the position of Exploration Manager, Foothills Region. Mr. Abdel-Kader provides domestic and international exploration consulting services.

J. Michael Lavery*
Mr. Lavery graduated from Bishop's University in 1965 with a B.A. (Economics). He is a Chartered Accountant who practiced tax with a major accounting firm until 1995 when he became Secretary Treasurer with Comcare Limited. He has a background in oil and gas taxation and is a Director of two other companies in the oil and gas industry. Mr. Lavery is currently President of ComConsult Limited.

* Members of audit committee

OFFICERS

Dennis Gieck
Chairman of the Board & C.E.O.

Bezo Khadr
President & C.O.O.

Bill Khouri
Vice President - Exploration

Joe Worobec Jr.
Vice President - Land

BANKERS

National Bank of Canada
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

SOLICITORS

Donahue Powers & Wells

RESERVE EVALUATION ENGINEERS

Martin & Brusset Associates

REGISTRAR & TRANSFER AGENT

CIBC Mellon
Calgary, Alberta

STOCK EXCHANGE LISTING

Alberta Stock Exchange
Trading symbol "AER"

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